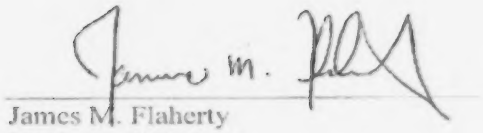
Office of the Superintendent of Financial Institutions

2013-2014

Report on Plans and Priorities



James M. Flaherty
Minister of Finance

BSIF
OSFI

Canada

Table of Contents

Message from the Superintendent **1**

Section I: Agency Overview **2**
Raison d'être 2
Responsibilities 2
Strategic Outcomes and Program Alignment Architecture (PAA) 3
Organizational Priorities 4
Risk Analysis 6
Planning Summary 9
Expenditure Profile 12
Estimates by Vote 14

Section II: Analysis of Programs by Strategic Outcome **15**
Strategic Outcome One: A safe and sound Canadian financial system 15
Program: Regulation and Supervision of Federally Regulated Financial Institutions 15
Planning Highlights 17
Program: Regulation and Supervision of Federally Regulated Private Pension Plans 18
Planning Highlights 18
Strategic Outcome Two: A financially sound and sustainable Canadian public retirement income system. 20
Program: Actuarial Valuation and Advisory Services 20
Planning Highlights 22
Program: Internal Services 23
Planning Highlights 23

Section III: Supplementary Information **25**
Financial Highlights 25
Future-Oriented Financial Statements 26
List of Supplementary Information Tables 26
Tax Expenditures and Evaluations Report 26

Section IV: Other Items of Interest **27**

Message from the Superintendent

OSFI's mandate and risk-based approach to supervision have helped to deliver a safe and sound financial system in Canada. Our mandate requires that we be forward looking in order to anticipate future risks, and to advance and administer a regulatory framework that promotes strong risk management. This report highlights the areas of OSFI's focus during the 2013-2014 fiscal year.

A major priority in the year will be participation in a Financial System Assessment Program (FSAP) review conducted by the International Monetary fund (IMF). This review will assess Canada's financial system, as well as measure OSFI against internationally agreed core principles of banking and insurance supervision. This program helps ensure a level playing field among participants in the global financial system, and increases transparency of OSFI's operations.

As well, during the 2013-2014 fiscal year, OSFI will be placing more emphasis on assessing operational risk, and will continue to advance work in assessing effectiveness of corporate governance at financial institutions, including in the area of risk appetite and risk culture. In the banking sector we will continue to consult on, and implement, remaining elements of the Basel Committee on Banking Supervision rules on capital and liquidity (Basel III). In the insurance sector, we will continue to work on elements contained in OSFI's Life Insurance Regulatory Framework, released in September 2012. OSFI will also be taking on a new role as the registrar and supervisor of Pooled Registered Pension Plans. This responsibility will be a complement to our current expertise in supervising federally regulated pension plans. Finally, OSFI will continue to focus on CMHC oversight given that, as a new entity to OSFI, considerable work is required to achieve supervisory coverage of its operations.

Strong cooperation, communication and action among federal partners such as the Bank of Canada, the Canada Deposit Insurance Corporation (CDIC), the Financial Consumer Agency of Canada (FCAC) and the Department of Finance – is essential. We will continue to work together at the Financial Institutions Supervisory Committee (FISC) and at the Senior Advisory Committee (SAC).
The contribution to public confidence OSFI has been able to make comes down – as always – to the individual contributions of our employees. Our people are the most important element of our effectiveness. OSFI employees are dedicated to ensuring that our work contributes to public confidence in a strong, stable and competitive financial system.

Section I: Agency Overview

Raison d'être

OSFI was established in 1987 by an Act of Parliament: the *Office of the Superintendent of Financial Institutions Act (OSFI Act)*. It is an independent agency of the Government of Canada and reports to Parliament through the Minister of Finance.

OSFI supervises and regulates all banks in Canada and all federally incorporated or registered trust and loan companies, insurance companies, cooperative credit associations, fraternal benefit societies and private pension plans.

The Office of the Chief Actuary, which is an independent unit within OSFI, provides actuarial valuation and advisory services for the Canada Pension Plan, the Old Age Security program, the Canada Student Loans Program and other public sector pension and benefit plans.

Responsibilities

OSFI's legislated mandate is to:

- Supervise federally regulated financial institutions and pension plans to determine whether they are in sound financial condition and meeting minimum plan funding requirements respectively, and are complying with their governing law and supervisory requirements;
- Promptly advise institutions and plans in the event there are material deficiencies and take or require management, boards or plan administrators to take necessary corrective measures expeditiously;
- Advance and administer a regulatory framework that promotes the adoption of policies and procedures designed to control and manage risk;
- Monitor and evaluate system-wide or sectoral issues that may impact institutions negatively.

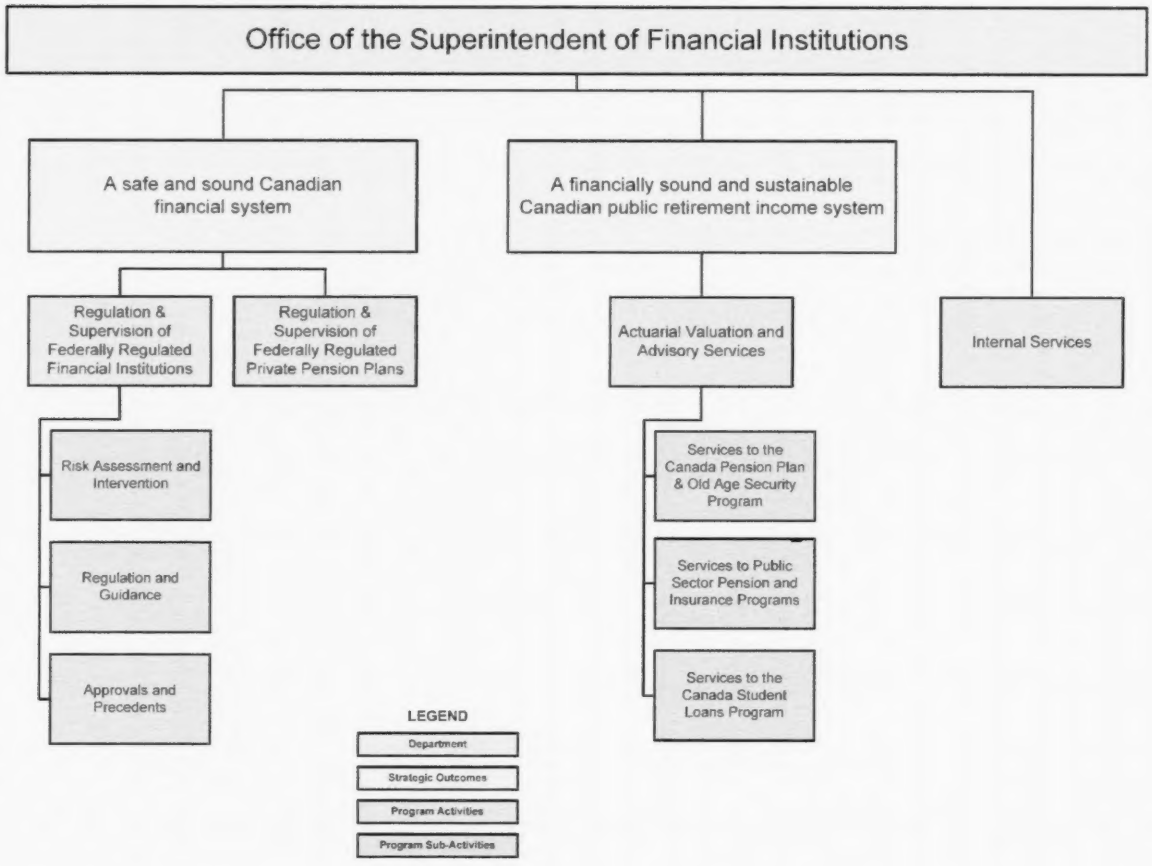
OSFI's legislation acknowledges the need to allow institutions to compete effectively and take reasonable risks. It also recognizes that management, boards of directors and plan administrators are ultimately responsible and that financial institutions and pension plans can fail.

Strategic Outcomes and Program Alignment Architecture (PAA)

Primary to OSFI's mandate and central to its contribution to Canada's financial system are two strategic outcomes:

1. A safe and sound Canadian financial system.
2. A financially sound and sustainable Canadian public retirement income system.

The diagram below illustrates OSFI's framework of programs and sub-programs, which roll-up and contribute to progress toward the Strategic Outcomes.


Office of the Superintendent of Financial Institutions
A safe and sound Canadian financial system
A financially sound and sustainable Canadian public retirement income system
Regulation & Supervision of Federally Regulated Financial Institutions
Regulation & Supervision of Federally Regulated Private Pension Plans
Actuarial Valuation and Advisory Services
Internal Services
Risk Assessment and Intervention
Regulation and Guidance
Approvals and Precedents
Services to the Canada Pension Plan & Old Age Security Program
Services to Public Sector Pension and Insurance Programs
Services to the Canada Student Loans Program
LEGEND
Department
Strategic Outcomes
Program Activities
Program Sub-Activities

Organizational Priorities

All Organizational Priorities link to both of OSFI's Strategic Outcomes.

Priority	Type	Strategic Outcome(s)
Anticipating and Responding to Risks Emanating from the Economy and Financial System	Ongoing	Strategic Outcomes One and Two

Description

Why is this a priority?

Economic and financial conditions have a significant impact on the environment within which financial institutions operate. A clear understanding of the risks emanating from the economy and financial systems ensures that effective regulatory and supervisory actions are undertaken.

Plans for meeting the priority

1. Focus on the impact of low interest rates, rising household indebtedness and ongoing challenges in major foreign economies on federally regulated financial institutions (FRFIs), pension plans and the Canada Mortgage and Housing Corporation.
2. Advocate OSFI's regulatory approaches through participation in policy discussions at international fora and working with domestic partners and industry stakeholders on similar issues in the Canadian context.
3. Participate and achieve strong results in the International Monetary Fund's Financial Sector Assessment for Canada, as well as ongoing peer reviews by the Financial Stability Board and the Basel Committee on Banking Supervision.
4. Improve our ability to assess risk and capital adequacy in FRFIs, by leveraging stress tests to inform inherent risk, and enhancing our ability to assess corporate governance in FRFIs.
5. Promote improved risk management practices in FRFIs by clarifying our expectations, communicating those expectations clearly, and assessing FRFIs against them.

Priority	Type	Strategic Outcome(s)
Anticipating and Responding to Risks Emanating from Regulatory Reform	Ongoing	Strategic Outcome One

Description

Why is this a priority?

The regulatory agenda globally is changing rapidly. A clear understanding of developments ensures appropriate actions are undertaken by OSFI to maintain a regulatory framework that continues to be effective and responsive.

Plans for meeting the priority

Banking Reforms:

1. Monitor the implementation of banking reforms in other jurisdictions and the impact of global and domestic banking reforms on Canadian Banks and adjust domestic guidance as required.
2. Play a collaborative role in the establishment of a credible recovery and resolution framework for systemically important banks in Canada.

Insurance Reforms:

1. Implement the suite of domestic reforms set out in the life insurance regulatory reform roadmap, as well as forthcoming proposed changes to property and casualty, and mortgage insurance guidance.
2. Actively participate, where appropriate, in the development of global insurance standards, and monitor the implementation of insurance reforms in other jurisdictions and assess their implications for insurance companies

operating in Canada.

Pensions Reforms:

1. Develop internal processes, external guidance and provide technical support to address pension-related regulatory changes, including Pooled Registered Pension Plans (PRPPs)[1].
2. Continue to transfer First Nations pension plans that, as a result of a Supreme Court of Canada decision, are not subject to federal law, to the appropriate provincial regulator.

International Accounting and Auditing Reforms:

1. Monitor and participate in changing international accounting and auditing standards to identify and ensure that any issues that arise are addressed in prudential and disclosure requirements for FRFIs.
2. Actively monitor and participate in attempts by the International Accounting Standards Board to achieve convergence with the Financial Accounting Standards Board. In the event of lack of convergence, assess and recommend any actions that need to be taken with respect to OSFI prudential standards.

Priority	Type	Strategic Outcome(s)
A High-Performing and Effective Workforce	Ongoing	Strategic Outcomes One and Two

Description

Why is this a priority?

Active recruitment, development and management of OSFI employees will allow for continued successful delivery of OSFI business goals.

Plans for meeting the priority

1. Continued implementation of the Human Resources (HR) Framework to ensure effective people management.
2. Enhance OSFI's integrated planning process and supporting documentation to clearly identify resource gaps (skills, tools & financial) and action plans to mitigate risks.
3. Introduce new HR systems to enhance reporting, productivity and information access.

Priority	Type	Strategic Outcome(s)
An Enhanced Corporate Infrastructure	Ongoing	Strategic Outcomes One and Two

Description

Why is this a priority?

Enhancing internal systems, processes, and knowledge transfer, will enable OSFI to work more effectively and efficiently.

Plans for meeting the priority

1. Establish a framework for enterprise-wide internal control with a comprehensive risk management plan.
2. Complete the Information Technology Renewal (ITR) program and prepare OSFI for adoption of future emerging technologies.
3. Continue to develop an enterprise information and FRFI data management strategy and framework, as per sound Enterprise Information Management principles, to ensure OSFI effectively captures and shares FRFI information.

[1] PRPPs are a new retirement savings option introduced by the Federal government of Canada.

Risk Analysis

OSFI operates in a constantly changing environment reflected in uncertain economic and financial conditions and an industry that can undergo periods of rapid change and that is becoming increasingly complex. OSFI's ability to achieve its mandate and objectives is impacted by the range of risks that exist in such circumstances. OSFI is challenged to effectively and efficiently identify, evaluate, prioritize and develop initiatives to address areas where exposure is greatest.

OSFI's Enterprise-wide Risk Management (ERM) framework divides risks into external and internal categories. The external risk category consists of economic and financial conditions, the financial industry environment, OSFI's legal environment and catastrophic events. External risks arise from events that OSFI cannot influence, but are monitored in order to mitigate their potential impact on OSFI's operations. The internal risk category consists of operational risks that are broadly categorized as people, processes (governance processes, internal processes, and relationship management processes), enabling supporting systems, and culture (core values and change management).

OSFI's ERM process has identified several key risks to the achievement of its mandate and objectives, as follows:

External Risks

Economic, Industry and Regulatory Environment

The economic outlook for major foreign economies and for Canada remains uncertain. The U.S. recovery continues to proceed at a modest pace but questions remain about whether medium-term fiscal challenges can be addressed in an orderly manner. Europe entered its second, albeit mild, recession in 2012 and while observers expect that growth will return, growth prospects will likely continue to be constrained by the need to reduce debt levels in a number of countries. Structural reforms are necessary to restore market confidence in Europe but the implementation risks are high and a re-escalation of the crisis in the euro area continues to be a material risk. A deepening of Canada's economic ties with China is occurring against a backdrop of slowing growth in China and concerns about excessive reliance in China on public investment, potential imbalances in the Chinese housing market and risks emanating from China's growing shadow banking sector.

The Canadian economy could also be more susceptible to adverse shocks compared to the last recession. Elevated household debt levels not only make households more vulnerable to adverse shocks but continued low interest rates could encourage even higher household indebtedness for a period of time. Also, consumers themselves could become a drag on economic growth if they take action to rein in spending to address their indebtedness or a decline in housing prices results in a pronounced, negative wealth shock.

Global and domestic financial events require that OSFI be in a position to respond effectively to a continually evolving economic and regulatory environment. On a micro-level, prevailing conditions continue to put pressure on OSFI staff to provide interpretations or to reassess existing guidance to ensure its effectiveness under stressful and evolving conditions. Specific strategies have been put in place within individual divisions, consistent with specialized responsibilities and current projects, to address ongoing industry developments. Resources continue to be reassigned and priorities realigned as necessary.

Capital Adequacy, Leverage and Liquidity

A fundamental redesign of the Basel capital framework for banks and the need to update prudential regulatory frameworks to address continued disruptions in global financial markets also require banks and regulators to focus more on the measurement of risks and its relation to the overall level of capital adequacy, leverage and liquidity. OSFI expects that the review, consultation and implementation of these changes will require more resources by both financial institutions and OSFI to address the number, breadth and novelty of more international rules and the need to monitor and advocate for comparable and timely implementation of these rules in peer jurisdictions. It is expected that policies and guidelines comprising OSFI's current prudential framework will have to be updated to incorporate new issues, information and lessons learned from the recent economic turmoil and the evolution of the structure of financial markets in reaction to new internationally required prudential standards. Monitoring the impact of new standards on bank behaviour will become equally important.

Work is underway in Canada as well as in many countries and international fora to develop more risk-sensitive capital frameworks for insurance companies. In Canada, the capital tests are called Minimum Continuing Capital and Surplus Requirement (MCCSR) and the Minimum Capital Test (MCT). Both companies and regulators recognize the need to have more risk sensitive approaches that better reflect the issues arising from increasingly complex products, dynamic markets, and accounting changes, while ensuring that they do not give rise to inappropriate volatility in regulatory capital requirements, especially for companies with long-term liabilities. In this regard, OSFI's Life Insurance Regulatory Framework[i], which was released in September 2012, sets out OSFI's priorities over the next three years.

Changes to International Financial Reporting Standards (IFRSs) and Auditing Standards

OSFI continues to monitor key accounting projects proposed by the International Accounting Standards Board (IASB) and their impacts on FRFIs. There are two key projects that will impact banks and insurers: replacement of Financial Instruments, and Insurance Contracts Phase II. The Financial Instruments project proposes increased use of fair value and expected loss provisioning for loans. The Insurance Contracts Phase II project proposes to fundamentally change the valuation of insurance liabilities and recognition of revenue. The impacts of the changes from these projects are extensive in that they will not only change the accounting, but will also significantly impact loan values and provisions, actuarial standards, and the regulatory capital regime. It is crucial that OSFI continues to anticipate, understand and, when practicable, influence such changes so that OSFI will continue to be able to perform accurate risk

assessments of financial institutions and will be able to adjust the regulatory capital framework as required.

The 2008 financial crisis has sparked much international and domestic discussion as well as proposals on how the audit function could be enhanced in order to contribute to increased financial stability. The role of the auditor, the scope of audits, and the audit report are being discussed and scrutinised on many levels. Changes emanating from this scrutiny may necessitate changes to OSFI's reliance-based regime that uses high-quality audited financial statements to complement supervisory processes. OSFI is actively monitoring and participating in domestic and international work efforts to improve audit quality (internationally through the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), and the International Association of Insurance Supervisors (IAIS), and domestically through the Auditing and Assurance Standards Board (AASB) and Auditing and Assurance Standards Oversight Council (AASOC)), and will make specific recommendations feeding into those work efforts as appropriate.

Internal Risks

People Risks

OSFI's success is dependent upon having employees with highly specialized knowledge, skills and experience to regulate and supervise financial institutions, identify significant issues, and perform accurate risk assessments.

A volatile global economy, increasingly complex products, changes to prudential regulation and emerging risks in the industry also mean that OSFI needs to be able to attract, motivate, develop and retain skilled people, particularly those whose skills are in demand in the financial sector. Although OSFI has grown significantly in recent years and turnover remains low, new OSFI responsibilities or existing areas which are of increased concern to OSFI could result in the need for new resources going forward. OSFI promotes a continuous learning environment to enable employees to meet the challenges under constantly changing conditions. Not having sufficient skill sets in place can result in an over reliance on certain key resources, which can lead to other people risks.

Systems Risks

Enabling technology and a robust, secure and well-supported Information Management/Information Technology (IM/IT) infrastructure are key success factors to OSFI in meeting its mandate. OSFI must ensure that the necessary information systems and infrastructure are in place to effectively support its supervisory and regulatory activities. OSFI has undertaken a multi-year information technology renewal initiative (ITR) in support of a long term IM/IT Strategy to mitigate this risk. Implementation issues related to this initiative are being closely monitored and evaluated.

Planning Summary

Financial Resources ($ millions)

Total Budgetary Expenditures (Main Estimates) 2013-2014	Planned Spending 2013–2014	Planned Spending 2014–2015	Planned Spending 2015–2016
140.3	140.3	137.7	141.9

The financial resources table above provides a summary of the total planned spending for OSFI for the next three fiscal years.[2]

Human Resources (Full-time Equivalent – FTE)

2013-2014	2014-2015	2015-2016
641	639	639

The human resources table above provides a summary of the total planned full-time equivalent resources for OSFI for the next three fiscal years.

Planning Summary Table for Strategic Outcome One ($ millions)

Program	Actual Spending 2010-2011	Actual Spending 2011-2012	Forecast Spending 2012-2013	Planned Spending 2013-2014	Planned Spending 2014-2015	Planned Spending 2015-2016	Alignment to Gov't of Canada Outcomes
Regulation and Supervision of Federally Regulated Financial Institutions	55.5	62.8	69.1	74.0	76.5	79.3	Strong economic growth
Regulation and Supervision of Federally Regulated Private Pension Plans	4.5	5.5	5.3	4.6	4.7	4.9	Income security for Canadians
International Assistance[3]	0.4	0.0	0.0	0.0	0.0	0.0	N/A
Sub-Total	**60.4**	**68.3**	**74.4**	**78.6**	**81.2**	**84.2**	

Actual spending in the Regulation and Supervision of Federally Regulated Financial Institutions program increased by 24.5% between 2010-2011 and 2012-2013. During this period, OSFI added regulatory and supervisory resources to address the increase in volume and complexity of its work, new permanent work driven by lessons learned from the financial crisis and to implement the significant regulatory reforms. New work included development of new and more sophisticated risk-sensitive liquidity, leverage and capital rules, increase in requirements around

[2] Additional information regarding the Financial and Human Resources trends can be found in the Expenditure Profile section of this report (page 12).
[3] Program discontinued in 2010-2011.

supervision of large banks and new international initiatives and commitments. OSFI also enhanced its specialization in the Life insurance industry and its monitoring and review of the actuarial function. In 2012-2013, OSFI's mandate expanded to include oversight of Canada Mortgage and Housing Corporation's (CMHC) commercial activities. The increase in 2013-2014 and beyond is attributed to the full year impact of new resources added in 2012-2013 and to normal merit and inflationary increases.

The increase in 2011-2012 and 2012-2013 in the Regulation and Supervision of Federally Regulated Private Pension Plans program is attributed to the development and implementation of a new system to enhance pension plan supervision.

Planning Summary Table for Strategic Outcome Two ($ millions)

Program	Actual Spending 2010-2011	Actual Spending 2011-2012	Forecast Spending 2012-2013	Planned Spending			Alignment to Gov't of Canada Outcomes
				2013-2014	2014-2015	2015-2016	
Actuarial Valuation and Advisory Services	4.2	4.2	4.5	5.2	5.2	5.4	Income security for Canadians
Sub-Total	**4.2**	**4.2**	**4.5**	**5.2**	**5.2**	**5.4**	

The increase in planned spending in the Actuarial Valuation and Advisory Services program in 2013-2014 to 2015-16 over the previous year actuals and the 2012-2013 forecast is attributed to filling of vacant positions, an additional 2 FTEs for incremental work and normal merit and inflationary adjustments. Spending in 2013-2014 also includes costs for the triennial Canada Pension Plan (CPP) review.

Planning Summary Table for Internal Services ($ millions)

Program	Actual Spending 2010-2011	Actual Spending 2011-2012	Forecast Spending 2012-2013	Planned Spending		
				2013-2014	2014-2015	2015-2016
Internal Services	41.3	52.3	58.1	56.5	51.3	52.3
Total	**41.3**	**52.3**	**58.1**	**56.5**	**51.3**	**52.3**

Spending in the Internal Services program increased 26.6% in 2011-2012 over the previous year due to costs associated with the implementation of OSFI's Information Technology Renewal (ITR) program, an increase in FTEs to support regulatory and supervisory initiatives and higher facilities costs associated with incremental space to accommodate the larger staff complement in Toronto and Ottawa. Spending is forecast to increase an additional 11.1% in 2012-2013 due to costs related to the ITR initiative, infrastructure upgrade and lease escalation costs, as well as normal merit and inflationary adjustments. The reduced level of spending after 2013-2014 reflects the completion of the implementation of OSFI's five-year IM/IT Strategy approved in April 2009 and the return to normal levels of investments in IM/IT to upgrade systems and renew core infrastructure and applications.

Planning Summary Total ($ millions)

Strategic Outcomes Programs, and Internal Services	Actual Spending 2010–2011	Actual Spending 2011–2012	Forecast Spending 2012–2013	Planned Spending		
				2013–2014	2014–2015	2015–2016
Total	105.9	124.8	137.0	140.3	137.7	141.9

Expenditure Profile

In accordance with the Treasury Board Secretariat's *Guide to the Preparation of Part III of the 2013-2014 Estimates*, the financial and human resources presented in this Report on Plans and Priorities reflect OSFI's approved Annual Reference Level Update (ARLU) estimates, which were prepared in summer 2012. At the time of writing this Report on Plans and Priorities (RPP), OSFI was completing its business planning process for fiscal years 2013-2014 to 2015-2016 and assessing its capacity requirements. Any changes to OSFI's approved ARLU estimates as a result will be reflected in next year's RPP.

Effective July 2012, OSFI's mandate expanded to include the review and assessment of the safety and soundness of CMHC's commercial activities, largely their mortgage insurance and securitization programs.

During the 2013-2016 planning period, OSFI will continue to place a priority on responding to risks emanating from the economy, with a focus on the impact of low interest rates, rising household indebtedness and ongoing challenges in major foreign economies on FRFIs, pension plans and CMHC. Risks emanating from regulatory reforms are also a priority, primarily in banking and insurance. OSFI continues to monitor the impact of global banking reforms on domestic guidance and implement reforms set out in the life insurance regulatory reform roadmap, as well as forthcoming proposed changes to Property and Casualty and mortgage insurance guidance. To meet its operational priorities, OSFI continues to focus on developing and retaining a high-performing and effective workforce, and to enhance its corporate infrastructure.

OSFI is currently in year three of the implementation of its approved five-year IM/IT Strategy. Work continues to advance the ITR initiative with the updating of OSFI's ageing technologies and annual investments to upgrade systems and renew core infrastructure and selected applications. Accordingly, increases to the resource levels presented in the table below are necessary, primarily in the Regulation and Supervision of Federally Regulated Financial Institutions program where expertise in technical skills are required to address the issues outlined above.

($ millions except for percentages)	**Actual Spending**	**Actual Spending**	**Forecast Spending**	**Planned Spending**		
	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Gross Expenditures	105.9	124.8	137.0	140.3	137.7	141.9
Change from previous year		*17.8%*	*9.8%*	*2.4%*	*-1.9%*	*3.1%*
Less:						
Respendable Revenue	105.0	123.9	136.1	139.4	136.8	141.0
Total Planned Spending	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**

Actual spending in 2010-2011 and 2011-2012 are explained in Figure 1. Total gross expenditures in 2012-2013 are forecasted to increase by 9.8% from the previous year, to $137.0 million, due to the increase in human resources and the full-year impact in 2012-2013 of employees hired during 2011-2012 (which in combination, result in a growth of 44 full-time equivalent positions), normal inflation and merit adjustments, investments in the ITR project, and the retrofit of new and existing office space in Toronto and Ottawa to accommodate a higher staff complement.

Total gross expenditures in 2013-2014 are planned to increase by 2.4% over 2012-2013 forecast, to $140.3 million, mainly due to normal inflationary and merit adjustments and continued investments in the ITR project. The year-over-year reduction in planned expenditure in 2014-2015 reflects the completion of the implementation of OSFI's five-year IM/IT Strategy approved in April 2009 and the return to normal levels of investment in IM/IT to upgrade systems and renew core infrastructure and applications.

Net of Respendable Revenues, total planned spending is $0.9 million for each of the planning years. This amount is assumed to remain unchanged over the planning horizon but may be adjusted by Treasury Board to reflect changes in collective agreements or continued cost constraint measures.

Figure 1

OSFI Expenditures and FTE - Planned and Actuals (2007-08 to 2015-16)

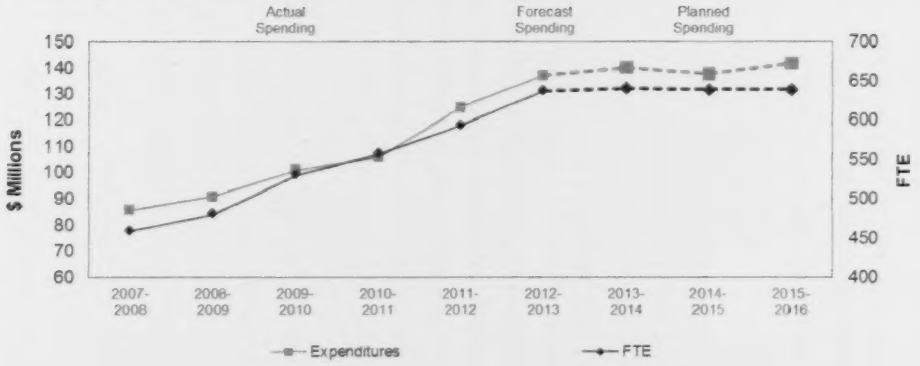


Figure 1 provides a trend of OSFI's actual and planned expenditures and full-time equivalents (FTEs) over the fiscal years 2007-2008 to 2015-2016. The growth in FTEs starting in late 2007-2008 through to 2009-2010 was driven by the global financial market turmoil, which began in August 2007, and the serious economic downturn in the following year while financial market turmoil still prevailed. During this period, OSFI added staff in specialized areas in order to more intensely monitor and assess risk in the financial sector. OSFI further increased its staff complement in 2010-2011 and 2011-2012 to address the increased volume and complexity of its work, new initiatives as a result of the lessons learned from the global financial crisis, to implement the significant regulatory reforms and to implement OSFI's approved ITR program. Driven by a fundamental change in how OSFI supervises insurance companies, OSFI increased its staff complement in 2012-2013 to ensure adequate resources and expertise related to the

regulation and supervision of the insurance industry. In addition, OSFI's mandate was expanded effective July 2012 to include the oversight of CMHC's commercial activities which resulted in a further increase in staff. OSFI's level of resources today is higher than pre-crisis levels as many of the new initiatives and commitments have become permanent demands. The most recent approved budget assumptions are that FTE estimates will hold relatively stable beyond 2012-2013.

Estimates by Vote

For information on our organizational appropriations, please see the *2013–14 Main Estimates*[ii] publication.

Section II: Analysis of Programs by Strategic Outcome

The following section describes OSFI's programs and identifies the expected results, performance indicators and targets for each of them. This section also explains how OSFI plans on meeting the expected results and presents the financial and non-financial resources that will be dedicated to each program.

Strategic Outcome One: A safe and sound Canadian financial system.

Program: Regulation and Supervision of Federally Regulated Financial Institutions

Financial Resources ($ millions)

Total Budgetary Expenditures (Main Estimates) 2013-2014	Planned Spending 2013–2014	Planned Spending 2014–2015	Planned Spending 2015–2016
78.6	78.6	81.2	84.2

Human Resources (Full-time Equivalent – FTE)

2013-2014	2014-2015	2015-2016
400	400	400

Program Summary

This program involves regulating and supervising federally regulated financial institutions (FRFIs) to determine whether they are in sound financial condition and are complying with their governing statute law and supervisory requirements; monitoring the financial and economic environment to identify issues that may impact these institutions negatively; and intervening in a timely manner to protect depositors and policyholders from undue loss, while recognizing that management and boards of directors are ultimately responsible, and that financial institutions can fail.

Costs for this program are recovered through base assessments and user fees and charges paid by the federally regulated financial institutions covered under the *Bank Act*, *Trust and Loan Companies Act*, *Insurance Companies Act* and *Cooperative Credit Associations Act*. The Office of the Superintendent of Financial Institutions also receives revenues for cost-recovered services to provinces, for which it provides supervision of their institutions on a fee for service basis.

This program has three sub-programs:

1. Risk Assessment and Intervention: This program involves the administration and application of an effective supervisory process to assess the safety and soundness of

regulated financial institutions by evaluating an institution's risk profile, financial condition, risk management processes, and compliance with applicable laws and regulations. This program includes activities to monitor and supervise financial institutions; monitor the financial and economic environment to identify emerging issues; and intervene on a timely basis when a financial institution's business practices may be imprudent or unsafe, by exercising supervisory powers to take, or require management or boards to take, necessary corrective measures as rapidly as possible to protect depositors and policy holders, while recognizing that all failures cannot be prevented.

2. Regulation and Guidance: This program involves advancing and administering a regulatory framework of rules and guidance that promotes the adoption by regulated financial institutions of sound risk management practices, policies and procedures designed to plan, direct and control the impact on the institution of risks arising from its operations. This program encompasses the issuance of regulations and guidance, input into federal legislation and regulations affecting financial institutions; contributions to accounting, auditing and actuarial standards; and involvement in a number of international regulatory activities.

3. Approvals and Precedents: Federally regulated financial institutions are required to seek regulatory approval for certain types of transactions. This program: evaluates and processes applications for regulatory consent; establishes positions on the interpretation and application of the federal financial institutions legislation, regulations and guidance; identifies precedential transactions that may raise policy or precedent-setting issues and develops recommendations that recognize the need to allow institutions to compete effectively while undertaking reasonable risks that do not unduly impact the Office of the Superintendent of Financial Institution's primary stakeholders, the policyholders and depositors of FRFIs.

Program Expected Results	Performance Indicators	Targets
Protect depositors and policy holders while recognizing that all failures cannot be prevented.	Percentage of estimated recoveries on failed institutions. (amount recovered per dollar of claim)	90%

Sub-Program Expected Results	Performance Indicators	Targets
Provide accurate Risk Assessments for institutions which align with their Composite Risk Rating.	Percentage of knowledgeable observers[4] that agree that their institution's Composite Risk Rating is appropriate.	70%
Regulations, guidance and other rules that balance prudential considerations and the need to compete.	Percentage of knowledgeable observers[3] that rate OSFI as being good or very good at developing Regulations, Guidelines and other rules that strike an appropriate balance between prudential considerations and the need for institutions to compete.	50%
Provide prudentially sound decisions on Regulatory Approvals.	Percentage of knowledgeable observers[3] that understand somewhat or very well the basis upon which OSFI makes its decisions as part of the approval process.	85%

[4] Senior Executives and professionals who act on behalf of federally regulated financial institutions.

Planning Highlights

In addition to its core work, OSFI will address its priorities through the following work:

- Focus on the impacts of low interest rates, rising household indebtedness, and ongoing challenges in major foreign economies on FRFIs, pension plans and CMHC and take appropriate actions.
- Continue to participate in international committees such as the FSB, the BCBS, the IAIS, the Joint Forum, and the Senior Supervisors Group to represent OSFI's views and contribute to developing final standards. These international committees are focused on identifying and responding to the key issues arising from global financial events, including future changes to regulatory approaches and new principles and rules for more effective prudential regulation. On the domestic front, continue to work closely with FISC partners, the Senior Advisory Committee[5], and industry stakeholders on similar issues in the Canadian context.
- Improve our ability to assess FRFI risk and capital adequacy, through leveraging the use of stress tests.
- Continue to promote improved risk management practices in FRFIs with a focus on liquidity, capital management, and corporate governance.
- Examine FRFI mortgage insurers and report to the Minister of Finance on certain matters related to the Government of Canada's mortgage insurance guarantee framework, as provided for under the *Protection of Residential Mortgage or Hypothecary Insurance Act*.
- Continue to work with a variety of stakeholders on various IFRS issues to understand the future impact on OSFI's regime and on insurers.
- Collaborate with CDIC to establish a credible recovery and resolution framework for systemically important banks in Canada.
- Participate in and respond to the International Monetary Fund's Financial Sector Assessment for Canada as well as ongoing peer reviews by the FSB and BCBS.

[5] These Committees are comprised of the heads of the federal departments and agencies that support the regulation of the financial sector and the financial stability of Canada.

Program: Regulation and Supervision of Federally Regulated Private Pension Plans

Financial Resources ($ millions)

Total Budgetary Expenditures (Main Estimates) 2013-2014	Planned Spending 2013–2014	Planned Spending 2014–2015	Planned Spending 2015–2016
4.6	4.6	4.7	4.9

Human Resources (Full-time Equivalent – FTE)

2013-2014	2014-2015	2015-2016
27	27	27

Program Summary

This program involves regulating and supervising federally regulated private pension plans to determine whether they are meeting minimum plan funding requirements and are complying with their governing law and supervisory requirements. This program provides risk assessments of pension plans covering employees in federally regulated areas of employment; timely and effective intervention and feedback to protect the financial interests of plan members and beneficiaries from undue loss, while recognizing that plan administrators are ultimately responsible, and that plans can fail; a balanced relevant regulatory framework; and a prudentially effective and responsive approvals process. This program incorporates risk assessment and intervention, regulation and guidance, and approvals and precedents related to federally regulated private pension plans under the *Pension Benefits Standards Act*, 1985. The costs for this program are recovered from pension plan fees based on the number of members in each federally regulated pension plan.

Program Expected Results	Performance Indicators	Targets
Protect the financial interests of federally regulated private pension plan members and beneficiaries.	Percentage of estimated recoveries on pension plans that have terminated under-funded.	85%

Planning Highlights

In order to achieve the expected results, OSFI plans to undertake, in addition to ongoing activities, the following initiatives:

- Develop internal processes and external guidance needed to support the implementation of Pooled Registered Pension Plans (PRPPs).
- Provide technical support in drafting of pension regulations to which government has committed and update and enhance external guidance, where necessary.

- Continue to transfer First Nations pension plans that are not subject to federal law to the appropriate provincial regulator[6].

[6] A November 2010 decision by the Supreme Court of Canada (relating to the framework for determining the jurisdiction of aboriginal employer-employee labour relations in Canada) had implications on the jurisdiction of registration of some First Nations pension plans. Specifically, some First Nations plans that are registered federally should be registered at the provincial level.

Strategic Outcome Two: A financially sound and sustainable Canadian public retirement income system.

Program: Actuarial Valuation and Advisory Services

Financial Resources ($ millions)

Total Budgetary Expenditures (Main Estimates) 2013-2014	Planned Spending 2013–2014	Planned Spending 2014–2015	Planned Spending 2015–2016
5.2	5.2	5.2	5.4

Human Resources (Full-time Equivalent – FTE)

2013-2014	2014-2015	2015-2016
34	34	34

Program Summary

The federal government and the provinces, through the Canada Pension Plan (CPP), public sector pension arrangements and other social programs have made commitments to Canadians and have taken on emanated responsibility for the financing of these commitments. Some are long-term and it is important that decision-makers, Parliamentarians and the public understand these and the inherent risks. This program plays a vital and independent role in this process. It provides checks and balances on the future costs of the different pension plans under its responsibilities.

This program provides a range of actuarial services, under legislation, to the CPP and some federal government departments. It conducts statutory actuarial valuations of the CPP, Old Age Security (OAS) and Canada Student Loans programs, and pension and benefits plans covering the Federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police (RCMP), federally appointed judges, and Members of Parliament.

The Office of the Chief Actuary (OCA) is funded by fees charged for its actuarial valuation and advisory services and by an annual parliamentary appropriation.

This program has three sub-programs:

1. Services to the CPP and OAS Program: This program involves the conduct of statutory actuarial valuations of the Canada Pension Plan (CPP) and Old Age Security (OAS) Program. These valuations estimate the financial status of these plans and programs as required by legislation. This program estimates long-term expenditures, revenues and current liabilities of the Canada Pension Plan and estimates long-term future expenditures for Old Age Security programs. Pursuant to the Canada Pension Plan and the *Public Pensions Reporting Act*, the Office of the Chief Actuary prepares statutory triennial actuarial reports on the financial status of these programs, as required by legislation.

2. Services to Public Sector Pension and Insurance Programs: This program involves the conduct of statutory actuarial valuations of various federal public sector employee pension and insurance plans. These valuations estimate the financial status of these plans as required by legislation. Pursuant to the *Public Pensions Reporting Act*, this program involves preparing statutory triennial actuarial reports on the financial status of federal public sector employee pension and insurance plans covering the federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police, the federally appointed judges and Members of Parliament. This program supports plan members, thereby serving the public interest, by ensuring good governance of the plan, appropriate disclosure in the actuarial reports and contributing to the overall accountability of the plan sponsor to members. This program also involves the provision of sound actuarial advice that assists different government departments in the design, funding and administration of these plans. As part of this program, the Chief Actuary submits the actuarial reports to the President of Treasury Board.

3. Services to the Canada Student Loans Program (CSLP): Pursuant to the *Student Financial Assistance Act*, as amended by the *Budget Implementation Act*, 2009, this program involves the conduct of statutory actuarial valuations of the Canada Student Loans Program (CSLP). The program also involves the preparation of a statutory actuarial report of the CSLP by evaluating the portfolio of loans and the long-term costs of the program. As part of this program, the Chief Actuary submits the actuarial report to the minister of Human Resources and Skills Development.

Program Expected Results	Performance Indicators	Targets
Stewards of Canada's public retirement income system are provided with independent, accurate, high quality and timely professional actuarial services and advice.	Adequacy of professional experience of the Chief Actuary and staff. AND Compliance with Canadian and international professional standards.	Unanimous agreement amongst peers*
* Independently selected panel of peers / actuaries.		

Sub-Program Expected Results	Performance Indicators	Targets
Accurate and high quality actuarial valuations inform Canada Pension Plan (CPP) and Old Age Security (OAS) stakeholders and Canadians of the current and projected financial status of the Plan and Program.	Peer review attests that actuarial valuations are comprehensive (i.e. examination of actuarial valuation methods, assumptions and analysis). AND Percentage of the recommendations within the scope and influence of the OCA that are implemented before the next peer review.	Unanimous agreement amongst peers* 80%
Accurate and high quality actuarial valuations of Public Pension and Insurance Plans are provided to departments to inform design, funding and administration of the plans.	Peer review attests that actuarial valuations are comprehensive (i.e. examination of actuarial valuation methods, assumptions and analysis). AND Actuarial opinion is appropriate.	Unanimous agreement amongst peers*
Accurate and high quality actuarial valuations inform CSLP stakeholders and Canadians of the future costs and provision	The Office of the Auditor General (OAG) performs an audit of the CSLP and uses work from OSFI's actuarial valuation of the CSLP as	Confirmation from the OAG

rates of the program.	audit evidence to support the OAG's independent auditor report for the Public Accounts of Canada.	
* Independently selected panel of peers / actuaries.		

Planning Highlights

As part of the OCA's commitment to provide checks and balances on the future costs of the different pension plans within its scope of responsibility and in order to achieve its expected results in 2013-2014, the OCA will prepare the statutory Actuarial Reports on the Canada Pension Plan, Pension Plan for Federally Appointed Judges, Pension Plan for Members of Parliament, Pension Plan for Canadian Forces – Regular and Reserve Forces, Pension Plan for Royal Canadian Mounted Police – Part IV, and the Regular Force Death Benefit Account, and submit them to the appropriate Minister. Additional actuarial reports to be prepared and provided to the appropriate authority during the year include an inter-valuation report on the Canada Student Loans Program, the Actuarial Reports on Government Annuities and the Civil Service Insurance Program, and the Actuarial Valuations for Public Accounts of Canada.

As part of Bill C-45: *Jobs and Growth Act, 2012* tabled on 18 October 2012, the OCA will also be responsible for providing the Actuarial Report on the Employment Insurance Premium Rate to the Canada Employment Insurance Commission in 2013-2014. Further to this Bill receiving Royal Assent, this Actuarial Report will also be tabled in Parliament by the appropriate Minister.

Other projects planned include the publication of several actuarial studies as part of the implementation of recommendations from the last peer review. The OCA will also continue to provide professional actuarial services to Government Departments such as Treasury Board Secretariat, Human Resources and Skills Development Canada, Finance Canada, Royal Canadian Mounted Police, Veterans Affairs Canada, National Defense Canada, Department of Justice, and the Privy Council Office. Staff workload has increased due to both additional responsibilities transferred to the OCA and to the increasing volume of client department requests.

Program: Internal Services

Financial Resources ($ millions)

Total Budgetary Expenditures (Main Estimates) 2013-2014	Planned Spending 2013–2014	Planned Spending 2014–2015	Planned Spending 2015–2016
56.5	56.5	51.3	52.3

Human Resources (Full-time Equivalent – FTE)

2013-2014	2014-2015	2015-2016
179	177	177

Program Summary

OSFI's Internal Services program supports its two strategic outcomes. Activities include developing and implementing cost-effective, secure and reliable information management systems that contain relevant, accurate and timely internal and external data. These information systems are complemented by the development and delivery of effective financial, human resources and administration, security, internal audit, communication and administrative policies, advice and guidance. The objective is to ensure that OSFI has the processes and systems in place to enable a motivated and skilled workforce to focus on its supervisory and regulatory activities.

Planning Highlights

Key planning highlights for OSFI's Internal Services include:

- A High-Performing and Effective Workforce:
  - Implement an overarching People Management Framework that aligns human resources (HR) practices and programs to business performance.
  - Implement a Total Rewards framework that guides OSFI's approach to compensation, benefits, work-life balance, employee recognition, and employee development, and that ensures we continue to recruit, retain and motivate our workforce.
  - Continue to evolve OSFI's HR Planning process to clearly identify resource gaps (skills, tools & financial) and action plans to mitigate risk.
  - Assess and implement a new HR System to provide better metrics and reporting on people management risks, and to provide future self-service to employees.

- An Enhanced Corporate Infrastructure:
  - Improve the sustainability of effective corporate services by continuing to implement key process documentation and internal controls in a risk-management approach, including:
    - Implementing various internal audit action plans as committed and reporting regularly to OSFI's Audit Committee on achievement of plans.

- Ongoing development of a framework for enterprise-wide internal control as approved by the Executive Committee.

- Continue the Information Technology Renewal (ITR) program to renew systems and applications enabling business intelligence, financial returns processing and document and records management.
- Explore and assess how existing and emerging technologies can enable OSFI employees to work in new and different ways in the future.
- Continue to develop and implement an enterprise information and FRFI data management strategy and framework, as per sound Enterprise Information Management principles, to ensure OSFI effectively obtains, captures and shares FRFI information.

Section III: Supplementary Information

Financial Highlights

The future-oriented financial highlights presented within this RPP are intended to serve as a general overview of OSFI's operations. These financial highlights are prepared on an accrual basis to strengthen accountability and improve transparency and financial management and to provide relevant, reliable, comparable and understandable information to the primary users of OSFI's financial statements. The primary users are the regulated financial institutions and private pension plans – that is, the paying stakeholders to whom OSFI is accountable – and their respective industry associations, who on the whole, operate financially on an accrual basis based on standards applicable to publicly accountable enterprises (PAEs) in the *CICA Handbook – Accounting*.

Future-oriented financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS), can be found on OSFI's web site at: http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?ArticleID=1548.

Future-oriented Condensed Statement of Financial Position

As at March 31, 2013 and 2014
($ millions)

	$ Change	Forecast 2013-2014	Estimated Results 2012-2013
Total Assets	2.1	70.1	68.0
Total Liabilities	2.1	45.1	43.0
Equity of Canada	2.1	25.0	25.0
Net Cost of Operations	0.0	0.0	0.0

Future-oriented Condensed Statement of Operations and Comprehensive Income

For the Years (Ending March 31)
($ millions)

	$ Change	Forecast 2013-2014	Estimated Results 2012-2013
Total Expenses	9.3	143.3	134.0
Total Revenues	9.3	143.3	134.0

	$ Change	Forecast 2013-2014	Estimated Results 2012-2013
Net Cost of Operations	0.0	0.0	0.0

OSFI matches its revenues to its costs. The difference between the figures above and the planned spending amounts provided in other sections of the RPP is due to a different basis of accounting and relate to such items as non-respendable revenues, amortization, severance pay liability adjustment and accrued interest costs. For more information, refer to the full future-oriented financial statements found on OSFI's Web site. The year-over-year increase of $9.3 million, or 6.9%, in revenues and expenses in 2013-2014 is largely related to additional resource requirements to meet OSFI's expanded mandate for the oversight of CMHC's commercial activities and OSFI's continued investments in information systems, as explained in the "Expenditure Profile" section of this report.

Future-Oriented Financial Statements

Future-oriented financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS), can be found on OSFI's web site at: http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=651.

List of Supplementary Information Tables

All electronic supplementary information tables which accompany the 2013-2014 Report on Plans and Priorities can be found on OSFI's web site at: http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=651.

The following tables are available at the link above:

- Greening Government Operations
- Upcoming Internal Audits and Evaluations over the next three fiscal years
- Sources of Respendable and Non-Respendable Revenue
- Summary of Capital Spending by Program

Tax Expenditures and Evaluations Report

The tax system can be used to achieve public policy objectives through the application of special measures such as low tax rates, exemptions, deductions, deferrals and credits. The Department of Finance publishes cost estimates and projections for these measures annually in the Tax Expenditures and Evaluations[iii] publication. The tax measures presented in the Tax Expenditures and Evaluations publication are the sole responsibility of the Minister of Finance.

Section IV: Other Items of Interest

Contact Information:

Office of the Superintendent of Financial Institutions
255 Albert Street
Ottawa, Ontario
K1A 0H2

Phone: (613) 990-7788

Other Information:

OSFI's Plan and Priorities 2013-2016 is available on OSFI's web site at:
http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=1249

[i] http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?ArticleID=5078
[ii] Government Expenditure Plan and Main Estimates, http://www.tbs-sct.gc.ca/ems-sgd/esp-pbc/me-bpd-eng.asp
[iii] http://www.fin.gc.ca/purl/taxexp-eng.asp